

October 22, 2003

Members of the Brownfield Redevelopment Authority  
City of Ypsilanti

In planning and performing our audit of the financial statements of the City of Ypsilanti Brownfield Redevelopment Authority for the year ended June 30, 2003, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Following are comments relating to situations that we consider to be reportable conditions:

Authority transactions were not recorded on the general ledger throughout the year.

A accurate balance sheet was not being maintained by the Authority throughout the year.

This report is intended solely for the information and use of the management and others within the organization.

Very truly yours,

**PLANTE & MORAN, PLLC**



David H. Helisek

Partner

October 22, 2003

Honorable Mayor and Members of the City Council  
City of Ypsilanti  
One South Huron Street  
Ypsilanti, Michigan 48197

Dear Council Members:

We have recently completed our audit of the City's financial statements for the year ended June 30, 2003. As part of our audit, and in addition to the financial report, we offer the following comments and recommendations for your consideration. For your information, we have also provided several legislative issues that could affect the City.

**Government Accounting Standards Board Statement 34**

Governmental Accounting Standards Board (GASB) Statement 34 is now here! You will notice a different look to the audited financial statements this year. Although there are many differences with this new reporting model, the major additions are as follows:

- **Management Discussion and Analysis:** Management is now required to give an overview of the City's overall financial position and results of operations.
- **Government-wide Financial Statements:** The statements now adjust the traditional fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the City's financial position from a current and longer term perspective including its capital assets and long term debt.
- **Budget Comparison:** A financial statement reader will now be able to not only view the actual revenue and expenditures of the City as compared to the current budget, but also as compared to the original adopted budget.

The GASB believes that this new model will provide a more complete picture of the financial position of the City. We would be happy to schedule a time to provide a more detailed overview about this new reporting model so that you can obtain the greatest user benefit from it.

## **ACCOUNTING AND RECORD KEEPING**

### **Interfund Receivables and Payables**

During the course of our audit, we noted significant interfund balances as of June 30, 2003, as well as single accounts used for numerous interfund balances. We suggest the City consider the following as part of its monthly accounting procedures in order to minimize the amount of interfund borrowing at each month's end and to simplify the process currently in place.

- Procedures should ensure that a balance in one fund corresponds to a balance in another fund.
- Common interfund balances within a fund (i.e., a fund has both a due from and a due to the same fund) should be combined through a journal entry.
- If a fund has cash available, pay off or reduce the interfund balance on a regular basis.
- If a fund does not have common interfunds nor cash available or the possibility of future cash flows is questionable, the interfunds should be analyzed for potential uncollectability and, if appropriate, adjustments should be made. In effect, the interfund may actually represent a transfer rather than a loan.

Monitoring and liquidating interfund balances will help to make interim and year-end financial reports simpler and easier to understand, ensure that each fund is able to invest and be credited with its share of investment earnings on an equitable basis and avoid cash flow surprises resulting from unexpected demands or needs to liquidate interfund balances.

### **Accounts Payable**

Retainer payable accounts are used by the City to record capital expenditures incurred by the City but not required to be paid until the end of the contract per the various contract agreements. During the year the City was not posting all retainage transactions, in other words, as invoices were being received, the retainage balances were not being properly updated. These accounts should be reconciled on a timely basis to ensure that the City maintains the proper retainage balances throughout the year.

When initially reviewing the accounts payable listings, we noted only invoices with the date prior to June 30, 2003 were being included in the listing. The accounts payable listing should include all items relating to services rendered and purchases received prior to the end of the period, regardless of the invoice date. This item was discussed with management and the listing was adjusted to include services and purchase prior to June 30, 2003.

### **Accrued and Other Liabilities**

There are various accrued liability accounts that have had no activity for several years. The City should analyze and evaluate the existing balances, documenting the support for those balances and consolidating information where appropriate.

The City does not accrue salary and wages earned at year end but not yet paid. While the accrued wages are minimal in comparison with the total annual wages, the City should be aware during the budgeting process that continuing this process will result in certain years having an extra pay period expensed. The City should consider recording a liability for wages earned as of the year-end that were not paid until the next fiscal year to alleviate this matter.

## **Long-term Liabilities**

The City issued multiple land contracts for the purchase of property relating to the Water Street Project during the year. The City should review its obligations on a regular basis with its bond counsel, especially with the upcoming purchase of the Huron Trade Center, in order to ensuring that the total of all installment purchase obligations does not exceed 1.25% of the City's state equalized value.

In addition, due to the number of bonds issued and outstanding by the City, the City should review the existing bond covenants to ensure compliance with required reserves. City bond counsel is a great resource in understanding and evaluating all the required measures.

Finally, when bonds are issued by the City, the recording of these bonds should be at face value of the issuance itself. We noted many instances of the bond proceeds being recorded net of any issuance costs and discounts. This would include issuances made on behalf of YUCA. We discussed these items with City management and adjusted the issuances appropriately for inclusion in the City's year end financial statements.

## **Grants and Other Revenue Sources**

While reviewing the City's federal and state grant activity, we noted that some activity related to these grants was not recorded and accounted for until after year-end. Per discussion with the finance department, they indicated they were not always aware of the status of certain projects. We encourage the City to record the activity regularly, through open lines of communication between the planning and finance departments. Regarding future grant funding and transfers between funds, consider written communication as a way to avoid any errors and to ensure proper recordkeeping.

While requesting documents related to the grant programs we noted the City's records were not kept as current as we would recommend. On occasion, it took a significant amount of time for the City to provide support for certain transactions. Proper records should be maintained at all times, especially when dealing with grant monies, including retaining copies of all invoices and other detail submitted to support expenditures on reimbursement requests.

The Michigan Department of Transportation (MDOT) administers many road projects throughout the City, part of which is funded with federal monies. Although all administration is done by MDOT, the City needs to ensure that all revenues and expenses be recorded in the City's general ledger in order to properly reflect the activity relating to these grants, and to properly capitalize the appropriate amounts for full-accrual, government wide statements.

The City does not have a formal written agreement with YCUA related to the DWRF loans documenting the responsibility for performing the federal programs audit. Since the loans are in the City's name, it is the City's obligation to perform a federal program audit. City management has discussed this issue with YCUA's auditors who have suggested that it would be most efficient to have the Federal Program Audit responsibility fall on the party that is administering, hiring, and supervising the projects. In order to do this, the City needs to obtain written documentation from YCUA that confirms this agreement. In addition, the City should plan to have YCUA administer any new DWRF loans that are received as they will be used for water and sewer related projects. Although the audit responsibility is moved to YCUA, the City is responsible for ensuring that all Federal Program Audit requirements are met, and therefore should be monitored by the City on a regular basis.

## **Other Accounting Items**

The Brownfield Redevelopment Authority has been using an outside company to manage the Huron Trade Center Activity for the Brownfield Redevelopment Authority. This financial activity was maintained by this company, but was not recorded by the City on a monthly basis. The activity is being recorded into the general ledger only once a year. We also noted that the management company was not maintaining an accurate balance sheet throughout the year as well. The Authority should be recording transaction activity on a monthly basis to identify errors or irregularities in a timely manner and evaluate the monthly transactions. In addition, the authority should consider formally designating an individual to approve all expenditure on behalf of Authority to further enhance the internal control service.

Per discussion with the City finance department, we noted that there is an interest in having an interdepartmental process map prepared to make departments aware of the responsibilities and interdependencies between them. We would be happy to discuss this matter or answer any questions in order to eliminate some inefficiencies that may exist currently in the departments.

## **LEGISLATIVE ISSUES**

### **State Shared Revenues**

The City has and will continue to feel the effects of the slow down in the State's economy. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the State's fiscal years ending September 30, 2002 and 2003 were less than originally projected.

The previous Governor's original budget recommendation for fiscal year 2002/2003 was to keep total revenue sharing payments to cities, villages, townships, and counties constant (or frozen) at the fiscal year 2001/2002 level. This recommendation included a reduction of approximately \$112 million from what the statutory formula would have otherwise allowed. As was well publicized, following the introduction of the previous Governor's fiscal year 2002/2003 budget there was an attempt in July 2002 to veto all statutory revenue sharing from the State's 2002-2003 budget. The attempt was not successful and the veto was overridden by the Michigan Legislature. However, in December 2002, revenue sharing was cut another \$53 million by an Executive Order of the previous Governor.

The budget presented by the new Governor included an overall reduction to revenue sharing payments of 3 percent from the estimated payments for the State's fiscal year ending September 30, 2003. This version of the budget was ultimately adopted by the Michigan Legislature. While the State's budget has been approved for their 2003/2004 fiscal year, it included several very significant assumptions which have not been fully realized. The State Revenue Estimating Conference in October of 2003 addressed these shortfalls and the Governor is currently attempting to remedy the shortfall. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state shared revenue, as this line item in the State's budget remains vulnerable.

We will continue to update the City as developments occur.

## **TELECOMMUNICATIONS ACT REVENUE**

Local units of government had until May 9, 2003 to notify the State that they were "opting in" to the new Telecommunications Act. The City did opt in and did receive its first payment from the METRO Authority for approximately \$12,500. The first payment was for a partial year and at a prorated rate. The second and future payments should be much larger as they will be based on a full year and at the standard rate. Checks for the second payment will be distributed in the Spring of 2004. If the state actually collects its projected amounts, the City could expect to receive approximately \$98,000 to \$113,000 for the fiscal year ending June 30, 2004. The City should continue to monitor its' projected revenue based on the State's revenue level. The City is required to spend the money received in a manner consistent with the allowable costs under the grant. The City of Ypsilanti has a reporting requirement regarding the use of these funds on an annual basis.

## **NEW HOMESTEAD AUDIT PROGRAM**

Public Act. 105 of 2003 provides new authority for local units of government and the Michigan Department of Treasury to share homestead information to determine if a resident is illegally claiming a homestead exemption on property. As you recall, following the passage of Proposal A in 1994, individuals in Michigan are allowed only one homestead for property tax purposes. A residence which is not an individual's homestead pays property tax at the non-homestead rate. The Michigan Department of Treasury will publish additional guidance related to this new law.

## **STATE TO FUND PERSONAL PROPERTY TAX AUDITS**

The State's fiscal year 2003/2004 General Government budget approved by the Legislature and the Governor contains an additional appropriation (\$7 million) for personal property tax audits. The Michigan Department of Treasury is responsible for developing the guidelines of the program.

## **PROPERTY ASSESSMENT CAP**

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

The increases in the taxable value of property for 1999, 2000 and 2003 were the lowest increases since the 1994 adoption of Proposal A. The 2002 inflation factor is being used for property taxes levied in the City's fiscal year ended June 30, 2003. Property taxes are a significant source of the City's General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is involved in long-term financial planning.

## MUNICIPAL FINANCE ACT REVISIONS

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's and Authority's year end June 30, 2003 and is good for one year thereafter.

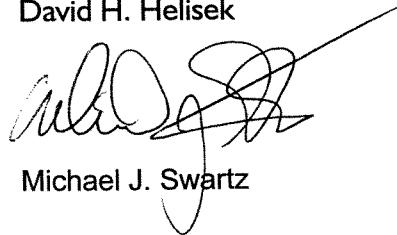
We would like to thank the City and all those involved with the audit process for their assistance. If any questions arise on reviewing the financial statements or on the above comments, we would be happy to discuss them with you or assist in the implementation of any of the recommendations. Thank you for the opportunity to be of service.

Very truly yours,

**PLANTE & MORAN, PLLC**



David H. Helisek



Michael J. Swartz